California
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Managing Unfunded Pension Liabilities in a Difficult Environment Unfunded Pension Liabilities

C.D.I.A.C. Pre-Conference Workshop
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California State Teachers' Retirement System

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California State Teachers' Retirement System (CalSTRS)

- Retirement System For:
  - K-12 Teachers
  - Administrators
  - Community College Instructors
  - Other Certificated (Librarians, Counselors, etc.)

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CalSTRS Retirement Programs

- Defined Benefit Program (DB)
- Cash Balance Benefit Program (CBB)
- Defined Benefit Supplement Program (DBS)
- Voluntary Investment Program (VIP) 403b
- Medicare Premium Payment Program (MPP)
- Purchasing Power Protection (SBMA)

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Defined Benefit Program Basic Retirement Benefit

- 2% of Final Comp times years of service +
- Until 2011, bonus at 30 , 31 and 32+ years of service = $200, $300 or $400 per month
- Final Comp is one year with more than 25 years of service, otherwise three years
- Normal retirement age of 60 with 5 YOS
- .2% age factor bonus with 30 YOS with a maximum age factor of 2.4%

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CalSTRS
Defined Benefit Program

- Demographics as of June 30, 2003

➢ Active Members	448,478
➢ Inactive Members	104,617
➢ Benefit Recipients	181,868
Total Membership	734,963

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CalSTRS Investments

- Market Value of Assets as of:
  - June 30, 2004 $116.7 billion
  - June 30, 2003 $100.4 billion

- Rate of Return as of:
  - June 30, 2004 17.4 percent
  - June 30, 2003 3.4 percent

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Defined Benefit Program Selected Highlights

- Actuarial Valuation completed every two years on the odd year except for years 1998 and 2000
- Contribution rate fixed by law
- Actuarial Valuation measures the sufficiency of future contributions to fund the benefits.
- Major improvements in benefits in 1998 and 2000.
- Decrease in funding from the State in 1998 and 2000.

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Defined Benefit Program Contributions

- Member contributes 8 percent of Salary, of which 2 percent goes to the Defined Benefit Supplement Account until 2011 – 6 percent stays in DB
- Employer contributes 8.25 percent of Salary
- State contributes 2.017 percent of Salary (excluding possible 1990 benefits unfunded contribution)

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Defined Benefit Program
Results of the 2003 Valuation

- Unfunded Actuarial Obligation is $23.110 billion
- Funded Status = 82 percent
- Expected Contribution Rate over the next 30 years net of DBS Redirection and Medicare Premium Payment Program = 17.384 percent of Salary
- Normal Cost Rate is 16.838 percent of Salary. This is the amount needed for the on-going plan.
- Amount remaining to amortize the UAO = 17.384 less 16.838 = .546 percent of Salary.

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Defined Benefit Program
Results of the 2003 Valuation Con't

- Contribution Rate needed over the next 30 years is 21.822 percent of Salary.
- Normal Cost Rate is 16.838 percent of Salary. This is the amount needed for the on-going plan.
- Amount needed to amortize the UAO = 21.822 less 16.838 = 4.984 percent of Salary
- The gap is 4.984 percent less amount available .546 percent or 4.438 percent of Salary

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DB Program Funded Status

Actuarial Val Date	Actuarial Obligation	Actuarial Assets	Unfunded Obligation	Funded Status
6/30/91	$47,100	$36,001	$11,099	76.4%
6/30/93	$53,581	$45,212	$8,369	84.4%
6/30/95	$63,391	$55,207	$8,184	87.1%
6/30/97	$69,852	$67,980	$1,872	97.3%
6/30/98	$74,234	$77,290	($3,056)	104.1%
6/30/99	$86,349	$90,001	($3,652)	104.2%
6/30/00	$93,124	$102,225	($9,101)	109.8%
6/30/01	$109,881	$107,654	$2,227	98.0%
6/30/03	$131,777	$108,667	$23,110	82.0%

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Defined Benefit Program
Results of the 2001 Valuation

- **Actuarial Gains/ Losses/Increases ($Millions)**

➢ 2000 Benefits Package	$ 5,606
➢ Salaries	3,143
➢ New Entrants and Rehires	353
➢ New Data System	250
➢ Investment	5,504
➢ SBMA Reserve Loss	917
➢ All Other	256
Total Loss/Increases 2000-2001	**$ 16,029**

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Defined Benefit Program Results of the 2003 Valuation

- **Actuarial Gains/ Losses/Increases (\$Millions)**

➢ Change in Actuarial Assumptions	\$ 2,787
➢ Salaries	1,982
➢ New Entrants	655
➢ Rehires	218
➢ Investment	12,406
➢ Change in Asset Method	1,218
➢ SBMA Reserve Loss	802
➢ All Other	129
Total Loss/Increases 2001-2003	**\$ 20,267**

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2000 Benefits Package

- **PV of 2000 Benefits Package ($Millions)**

➢ DBS Program Redirection	$ 3,003
➢ Medicare Premium Payment	1,257
➢ Final Year Comp > 25 YOS	4,060
➢ Retiree Ad Hoc Increase	889
➢ DBS Program Enhancement	235
➢ State Refinancing	3,604
➢ Longevity Bonus	1,835
➢ Minimum Guarantee (Extension)	89
➢ Interaction Between Benefits	21
Total Present Value	**$ 14,999**

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Investment Returns

Actuarial Val Date	Actuarial Investment Assumption	Investment Return	Investment Income
6/30/96	8.0%	13.20%	$7,465
6/30/97	8.0%	17.40%	$11,021
6/30/98	8.0%	17.05%	$12,953
6/30/99	8.0%	13.35%	$11,801
6/30/00	8.0%	12.69%	$12,694
6/30/01	8.0%	(9.12%)	($10,237)
6/30/02	8.0%	(5.95%)	($6,303)
6/30/03	8.0%	3.41%	$3,689
6/30/04	8.0%	17.4%	N/A

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Managing the Unfunded Liability

- At the July 2004 Board meeting, the Teachers' Retirement Board directed staff to identify solutions to the long-term unfunded liability

- CalSTRS has set up an internal working group to review possible solutions
  - Increase contributions
  - Change the benefit structure
  - Increase Revenue

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Managing the Unfunded Liability
Increase Contributions

- State – Increase funding back to 1998 levels of 4.3 percent of Salary (from 2.017 percent)
  - Contributions set by law and difficult to change
  - State has a structural budget deficit
  - SBMA lawsuit

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Managing the Unfunded Liability Increase Contributions

- Employers – currently at 8.25 percent of Salary
  - ➢Contributions set by law and difficult to change
  - ➢Schools face big budget deficits/layoffs
  - ➢No incentive; no gain for schools
  - ➢Retirement not a top priority; last on the list

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Managing the Unfunded Liability Increase Contributions

- Members – currently at 8.0 percent of Salary
  - Contributions set by law and difficult to change
  - Vested right to benefit
  - May want something in return – benefit increase?
  - Younger members may see little value in existing plan

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Managing the Unfunded Liability
Change the Benefit Structure

- Reverse part of the 1998 and 2000 benefit increase packages
- Tier two for new members
- Plan redesign

Managing the Unfunded Liability
Increase Revenue

- Change Asset Allocation Policy
  - 2003-2004 Asset/Liability Study
  - Result of study is that the current and foreseeable markets are unlikely to allow plan to "invest" its way out of the hole
  - Actuarial Assumptions set in March of 2004
  - No change in actuarial investment return assumption
  - No major change in asset allocation policy

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Managing the Unfunded Liability
Increase Revenue

- Adjust service purchases and other cost items to reflect actuarial equivalence
- Other – Telethons, Bake Sales, etc.

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CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?

Securing the financial future
and sustaining the trust of California's educators.